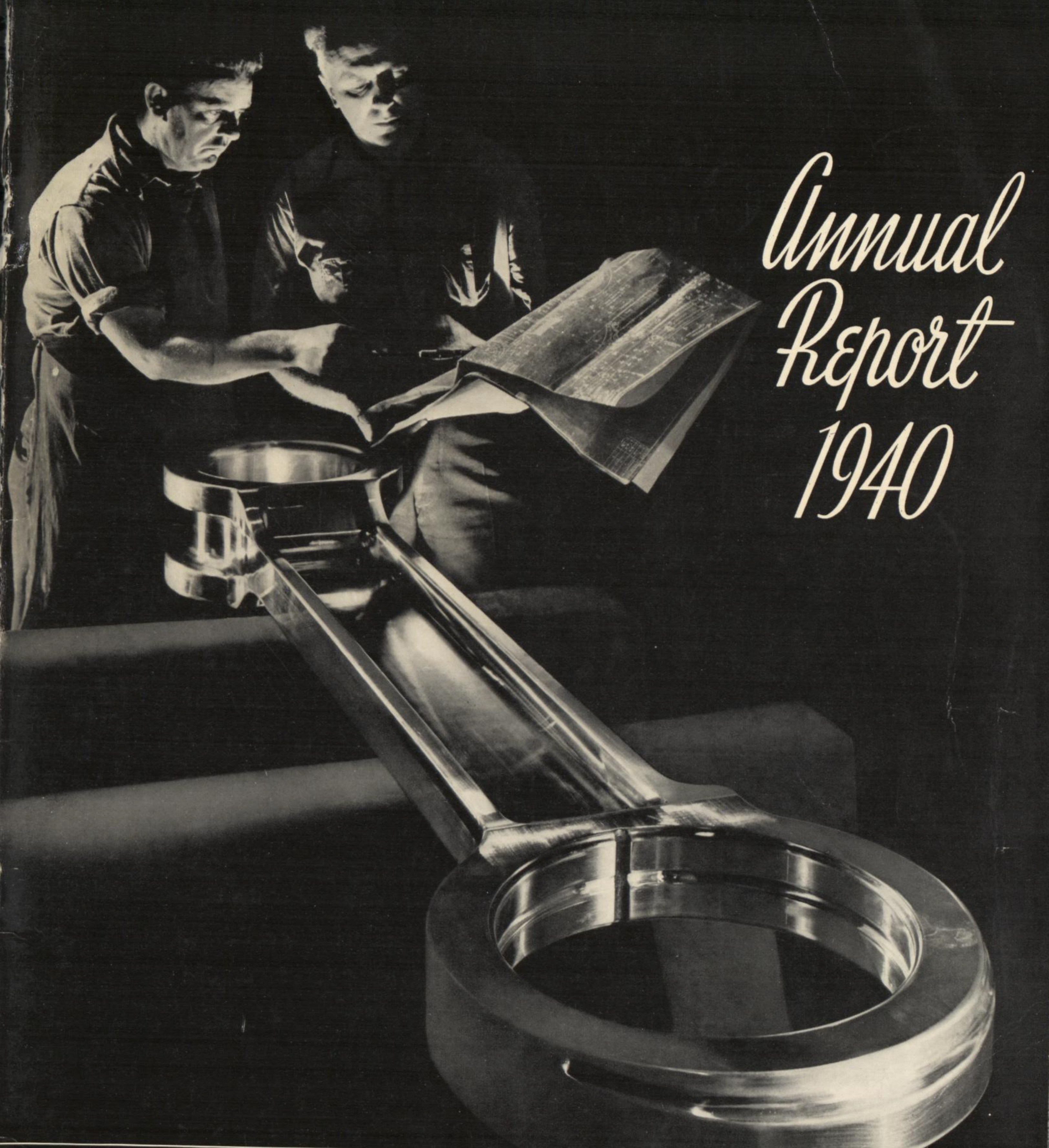

Annual Report 1940

AMERICAN LOCOMOTIVE COMPANY

OUR front cover illustrates a locomotive rod, and our back cover illustrates our forge shop—view being taken from the heat treating end, the forging equipment showing in the dim background.

For years, as the steam locomotive increased in size and power, the rods were simply made larger and heavier. Proper counterbalancing at times was an impossibility and it was only through the medium of operating many of the larger locomotives at speeds below reasonable limits that permitted their continuance in service without encountering difficulties.

Today, however, the whole picture has changed. The modern steam locomotive excels in power at speed, and the rod and counterbalancing problem becomes one of rods having increased strength yet comparatively much lighter in weight. This means the use of alloy steels with all the manufacturing complications and special fabricating facilities that the use of alloy steels involve, such as — metallurgical control starting in the open-hearth furnace—pouring and cooling of the ingot—preheating for forging—slow cooling and careful heat treating with exacting testing supervision—careful and accurate machining to close tolerances, including grinding and polishing. The pleasing appearance because of the high polish is only incidental. Grinding and polishing bring out hidden defects, and also remove all nicks and scratches which frequently are the starting point for cracks and fractures.

Alco

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MAR 18 1941
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AMERICAN LOCOMOTIVE COMPANY

DIRECTORS

GEORGE W. H. ALLEN	Cazenovia, N. Y.
LEWIS L. CLARKE	New York
JOSEPH DAVIS	New York
WILLIAM C. DICKERMAN	New York
JOSEPH B. ENNIS	New York
FRANK J. FOLEY	New York
DUNCAN W. FRASER	New York
CHARLES J. HARDY	New York
*GEORGE B. MOTHERAL	Pittsburgh, Pa.
NORMAN C. NAYLOR	Chicago, Ill.
NOAH A. STANCLIFFE	New York
ALBERT H. WIGGIN	New York

OFFICERS

WILLIAM C. DICKERMAN, Chairman of the Board

DUNCAN W. FRASER, President

JOSEPH B. ENNIS	Senior Vice-President
JAMES E. DAVENPORT	Vice-President, Engineering
ROBERT B. McCOLL	Vice-President, Manufacturing
FRANK J. FOLEY	Vice-President, Sales
NORMAN C. NAYLOR,	Vice-President
WILLIAM E. CORRIGAN	Vice-President
JOHN D. FINN	Secretary
HERMAN PRESS	Treasurer
WARREN L. MÚLLE	Comptroller
WILLIAM K. FARRELL	General Purchasing Agent

TRANSFER AND DIVIDEND DISBURSING AGENT

BANKERS TRUST COMPANY . . . . 16 Wall Street, New York

REGISTRAR OF STOCK

THE GUARANTY TRUST COMPANY OF NEW YORK
140 Broadway, New York

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*Deceased February 12, 1941.

To The Stockholders:

The Board of Directors submits the Thirty-ninth Annual Report of your Company, for the fiscal year ended December 31, 1940, including Consolidated Balance Sheet as at that date and Consolidated Statement of Profit and Loss and of Surplus for the year then ended.

Results for the Year

The net profit carried to surplus for the year, after depreciation, taxes and all other charges was $2,850,913.23. This amount was equivalent to the full yearly dividend requirement on the 7% cumulative Preferred stock and 50¢ per share on the 767,900 shares of Common stock outstanding. The Company paid $5.00 per share or $1,759,805 on account of preferred dividends in arrears. In connection with the year's results we submit the following comparison:

	Year ended December 31,	
	1940	*1939*
Sales	$38,438,938	$22,358,740
Wages and salaries paid employees	11,934,062	8,719,494
Federal, State, Municipal and Social Security taxes	1,802,277	901,588

The Federal income taxes for 1940 were somewhat lessened due to a loss carry-over from 1939. The increased volume of sales was reflected in all divisions of the business but more particularly in the steam and Diesel locomotive divisions. As to steam locomotives, in addition to an increase in domestic sales there was a considerable increase in foreign sales. As to Diesel locomotives, there has been a strong demand for our switching locomotives, already well established with the railroads, and our new fast passenger locomotive was well received.

FINANCIAL REVIEW

During the year, the net current working capital was increased by almost $1,000,000, notwithstanding the payment on accumulated Preferred dividends, and the ratio of current assets to the current liabilities at December 31, 1940, was approximately 4.6 to 1 as compared with 6 to 1 at December 31, 1939. Adequate provision has been made for notes and accounts receivable considered doubtful of full realization. The inventories were all verified by physical count, weight or measurement at or near the close of the year under the supervision of responsible employees and were conservatively valued. The increase as compared with December 31, 1939, is chiefly in connection with the increase in commercial unfilled orders on hand at December 31, 1940. At the latter date there were no commitments for the future purchase of commodities at prices above current market quotations.

The plants have been well maintained and in certain departments the equipment has been supplemented with additional equipment necessitated by increased production demands both commercial and indirectly connected with the National Defense Programs of the United States and Canada. These plant additions required an expenditure of about $1,300,000. In addition, our plants will be augmented with facilities directly connected with the respective National Defense Programs aggregating approximately $7,500,000. These latter facilities will be financed by the respective Governments which will retain title thereto.

The Balance Sheet shows accumulated dividends of $42.75 per share on the 7% cumulative Preferred stock. The officials of the Company are not unmindful of these accumulated dividends and are continuing to give thought to some plan by which these accumulated dividends may be liquidated.

BUSINESS PROSPECTS

In any activities of the future the vast and dominating influence of the Defense Programs and the Wars abroad must be considered—the uncertain and unforeseeable possibilities are unlimited. On November 15, 1940 the stockholders were advised at length that the Company was called upon to assist the United States and Canadian Governments in carrying out the respective National Defense and War aid programs. We have answered that call and are collaborating with the various Governmental units, being handicapped in our participation only by shortages of machine tools and materials necessary to expedite production. The unfilled orders at December 31, 1940 may be compared with the close of the previous year as follows:

	December 31, *1940*	*1939*
Orders for regular products although in some instances indirectly related to Defense Program activity	$24,400,000	$12,800,000
Orders for Ordnance and munition products, directly related to Defense Programs	113,900,000	....
	$138,300,000	$12,800,000

Included in the latter item are orders placed by the Canadian and British Governments converted to United States Dollars at the official rate of exchange, aggregating $71,000,000. The production under many of these contracts will extend well into 1942 and, while they provide for cancellation at the option of the respective Governments, it is believed the Companies' interests are adequately protected in such an event. It is also felt that the financial provisions of the various contracts are such that no substantial demand will be made upon the financial resources of the Companies involved.

The activity of the Diesel Division has been increased to capacity largely as a result of the performance of our product in the fast passenger locomotives, the combination freight and switching locomotives, and the switching locomotives. We have also received marked recognition of the availability of our railway-type engine for propelling power of certain types of ships constructed for or embodied in the Navy Defense Program. The wider reception of this type engine should cause a continuance of increased orders.

The steam locomotive demand remains only moderate but it is expected that when the vast production called for by the Defense Programs begins to move later in this year, it will require increased production of steam locomotives.

The expanding program of activity in general is also being reflected in a substantial increase in the unfilled orders for the production of the Alco Products Division. At the present time, this division is fast approaching capacity production for the year 1941.

The very satisfactory output of the Railway Steel-Spring Division is being maintained.

The Company is at all times prosecuting the research and development of our products as well as related products with a view to maintaining our position as a leading Company in its fields of activity and to provide necessary diversification to replace present products if and as they become outmoded.

The heat treating and machining facilities of our forge shops are being increased and we expect to participate considerably both in the commercial and Defense field of this activity.

CHANGES IN ADMINISTRATIVE PERSONNEL

Effective March 1, 1940, Mr. William C. Dickerman was elected Chairman of the Board, Mr. Duncan W. Fraser was elected President and Mr. R. B. McColl was elected Vice-President of Manufacturing.

Effective June 27, 1940, Mr. William E. Corrigan was elected Vice-President, Miscellaneous and Munitions Sales and was succeeded in his former capacity by Mr. Hunter Michaels as Sales Manager of the Railway Steel-Spring Division.

Effective July 11, 1940, Mr. W. S. Morris, was elected Vice-President of Montreal Locomotive Works, Limited, temporarily succeeding Mr. W. F. Drysdale, Vice-President of Sales of that Company, who has been loaned to the Canadian Government, Department of Munitions and Supplies, Ottawa, Canada.

On February 29, 1940, Mr. Noah A. Stancliffe was elected a Director to serve the unexpired term of Mr. David K. E. Bruce, resigned.

Effective January 1, 1941, Mr. Joseph B. Ennis, Vice-President, Engineering, was elected Senior Vice-President and Mr. James E. Davenport was elected Vice-President, Engineering, Development and Research, to succeed Mr. Ennis.

It is with regret that we record the decease of Mr. H. S. Banghart on June 2, 1940. For many years Mr. Banghart served in an official capacity with a former subsidiary Company, Railway Steel-Spring Company, since merged with the American Locomotive Company. From 1928 to the time of his death he was Assistant Treasurer and Assistant Secretary of the parent Company.

CONCLUSION

The Board of Directors takes this opportunity to record its appreciation of the loyal support and commendable efforts of the officers and employees in maintaining the efficient standards of the Company.

In addition to the financial statements mentioned, the report of the Company's accountants, Messrs. Leslie, Banks & Company, is appended.

Respectfully submitted for the Board of Directors.

WILLIAM C. DICKERMAN, Chairman.

March 5, 1941.

AMERICAN LOCOMOTIVE COMPA

CONSOLIDATED BALANCE S

ASSETS

CURRENT ASSETS:			
Cash		$3,528,502.41	
Marketable securities (Value based on market quotations at December 31, 1940—$1,781,430)		741,870.00	
Accounts and notes receivable, trade (including $620,602 due subsequent to December 31, 1941)	$5,846,633.47		
Less reserve for doubtful accounts and notes	157,289.69	5,689,343.78	
Other accounts and notes receivable		120,456.80	
Inventories, at lower of cost or market value:			
Materials and supplies	$3,896,140.82		
Work in process	5,788,381.50		
Finished products	668,670.60	10,353,192.92	
Total Current Assets			$20,433,365.91
INVESTMENTS—at or below cost:			
Securities deposited with Workmen's Compensation Commissions		$482,971.44	
Other security investments		4,076,327.48	
		$4,559,298.92	
Less reserve for possible loss		2,750,000.00	
			1,809,298.92
SPECIAL CASH DEPOSIT			250,000.00
FIXED ASSETS—on basis of cost:			
Land		$2,121,559.00	
Buildings, machinery and equipment	$42,376,115.57		
Less reserve for depreciation	21,572,985.89	20,803,129.68	
Patterns, drawings and dies		2,100,000.00	
Unused plant sites and facilities at estimated realizable values		174,278.00	
			25,198,966.68
GOODWILL			11,000,000.00
DEFERRED CHARGES			390,804.21
			$59,082,435.72

Note: The net assets of Canadian subsidiary included above aggregate $3,596,975.72, of which $1,445,017.47 represents net current assets and deferred charges converted at the official rate of exchange.

NY AND SUBSIDIARY COMPANIES

HEET, DECEMBER 31, 1940

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable		$2,740,999.73	
Accrued salaries, wages, expenses, etc.		476,066.30	
Accrued taxes other than income		250,608.97	
Advance payments received on contracts		51,500.00	
Provision for income taxes		956,089.80	
Total Current Liabilities			$4,475,264.80
RESERVES:			
Deferred credits and operating reserves		$380,643.22	
Accident indemnity reserves		618,888.01	
Other contingency reserves		872,819.58	
			1,872,350.81
CAPITAL STOCK:			
Preferred—7% Cumulative, par value $100 per share			
Authorized and issued	385,000 shares		
Less in treasury	33,039 shares		
Issued and outstanding	351,961 shares	$35,196,100.00	
Common—no par, stated value $5 per share			
Authorized and issued	770,000 shares		
Less in treasury	2,100 shares		
Issued and outstanding	767,900 shares	3,839,500.00	
			39,035,600.00
SURPLUS:			
Capital surplus		$4,702,686.79	
Earned surplus		8,996,533.32	
			13,699,220.11
Contingent Liabilities-guarantees, pending litigation, etc.—loss, if any, not considered to be significant.			
			$59,082,435.72

Cumulative dividends on Preferred Stock in arrears at December 31, 1940, amounted to $42.75 per share.

AMERICAN LOCOMOTIVE COMPANY

and Subsidiary Companies

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1940

Gross sales, less discounts and allowances . . .		$38,438,938.28
Cost of goods sold, including administrative, selling, and general expenses.	$34,034,214.34	
Depreciation	917,702.05	
		34,951,916.39
Profit from operations		$3,487,021.89
Other income:		
Dividends.	$244,994.50	
Interest.	66,085.95	
Royalties	8,902.59	
Profit on securities sold	3,386.67	
Miscellaneous (net)	20,952.12	
		344,321.83
		$3,831,343.72
Other charges:		
Interest paid	$5,860.89	
Idle plant expense	31,290.53	
		37,151.42
Net profit before provision for income taxes		$3,794,192.30
Provision for Federal and Foreign income taxes		943,279.07
Net profit for the year, carried to attached statement of surplus		$2,850,913.23

AMERICAN LOCOMOTIVE COMPANY

and Subsidiary Companies

CONSOLIDATED STATEMENT OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1940

CAPITAL SURPLUS

Balance, December 31, 1939 and December 31, 1940, carried to attached balance sheet	$4,702,686.79

EARNED SURPLUS

Balance, December 31, 1939	$7,905,425.09
Add: Profit for the year, per statement attached	2,850,913.23
	$10,756,338.32
Deduct: Dividends paid on preferred stock	1,759,805.00
Balance, December 31, 1940, carried to attached balance sheet	$8,996,533.32

ACCOUNTANTS' REPORT

To The Board of Directors of
American Locomotive Company:

We have examined the consolidated balance sheet of American Locomotive Company and subsidiary companies as of December 31, 1940, and the related consolidated statements of profit and loss and of surplus for the fiscal year then ended, have reviewed the systems of internal control, and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies, and other supporting evidence, by methods, at times, and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and of surplus (together with notations) present fairly the consolidated position of American Locomotive Company at December 31, 1940, and the consolidated results of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LESLIE, BANKS & COMPANY

New York, N. Y.
March 3, 1941

AMERICAN LOCOMOTIVE COMPANY

designs, manufactures and sells the following products:

Locomotives—steam, electric, and Diesel-electric, and their component parts, especially high grade locomotive forgings

Diesel engines for Diesel-electric locomotives and for stationary and marine service

Gasoline engines for rail cars

Springs for locomotives, for passenger and freight cars and for general use

Steel tires and steel-tired wheels for all classes of railroad service

Seamless steel circular forgings

Journal box lids, spring plates and other pressed steel parts

Steel ingots

Pressure vessels, tubular equipment and heat transfer equipment for oil refineries, public utilities, marine and manufacturing service

Alco electric welded pipe for water pipe lines

Prefabricated piping

Fabricated plate work

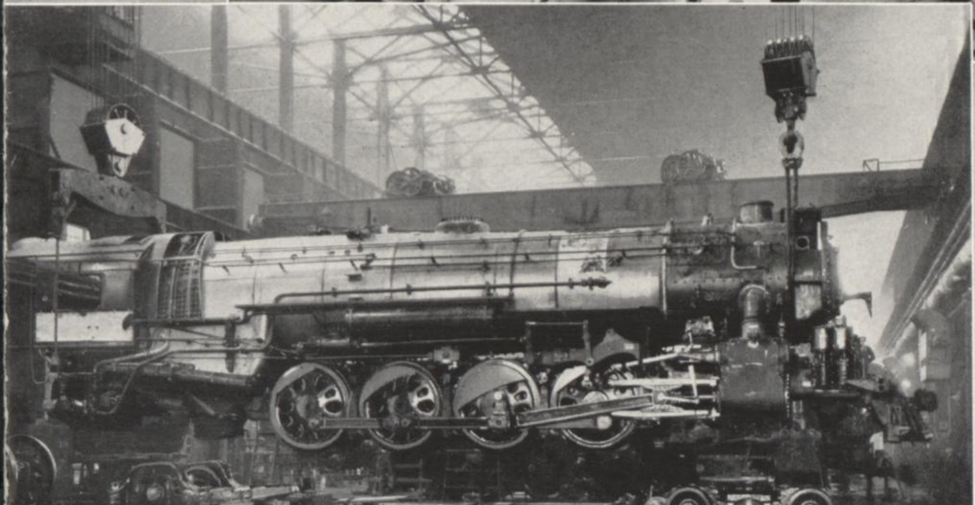
Flexible and rigid staybolts

Piston and throttle valves

Reverse gears

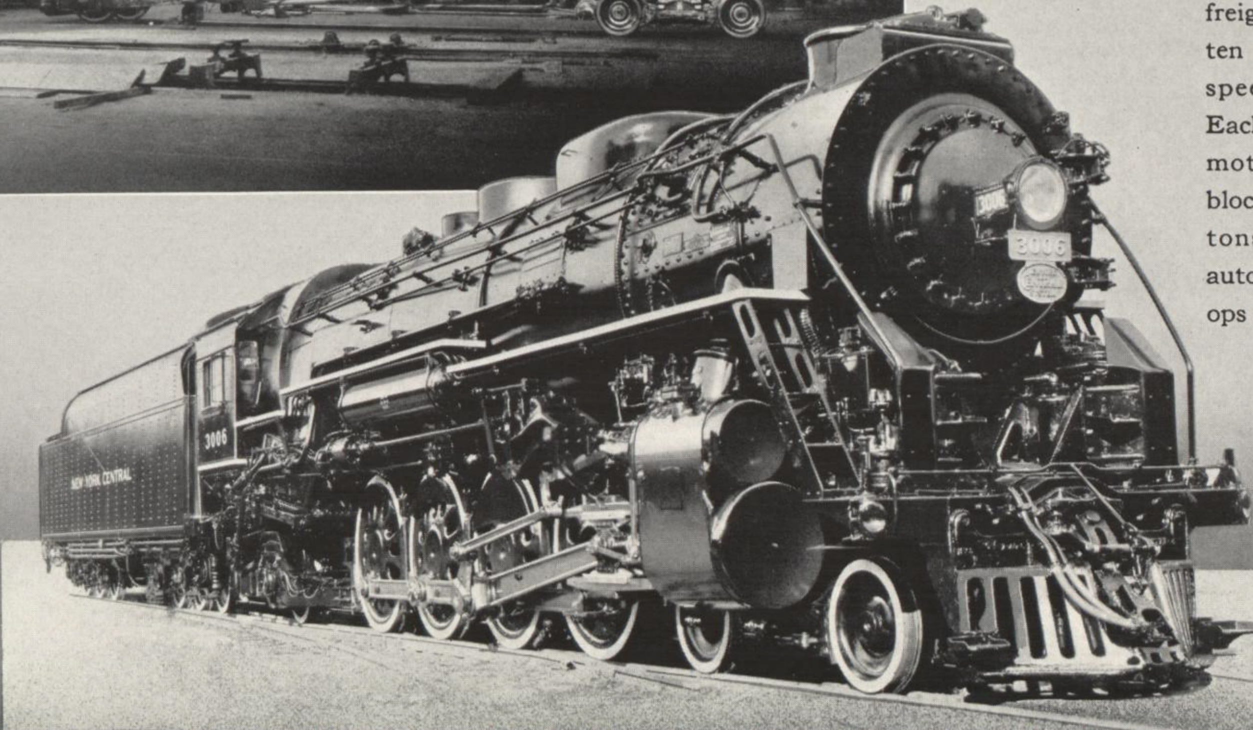
Upon the following pages will be found illustrations of some of the major items designed, developed and manufactured by the Company.

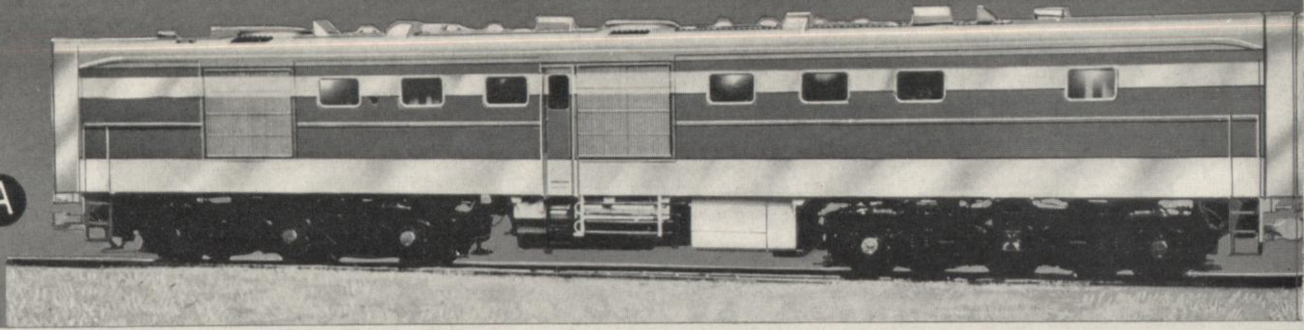
Steam LOCOMOTIVES



The rapid movement of goods and materials is one of the most vital elements of our national defense. The New York Central has been preparing for this vastly increased tempo of transportation for many months.

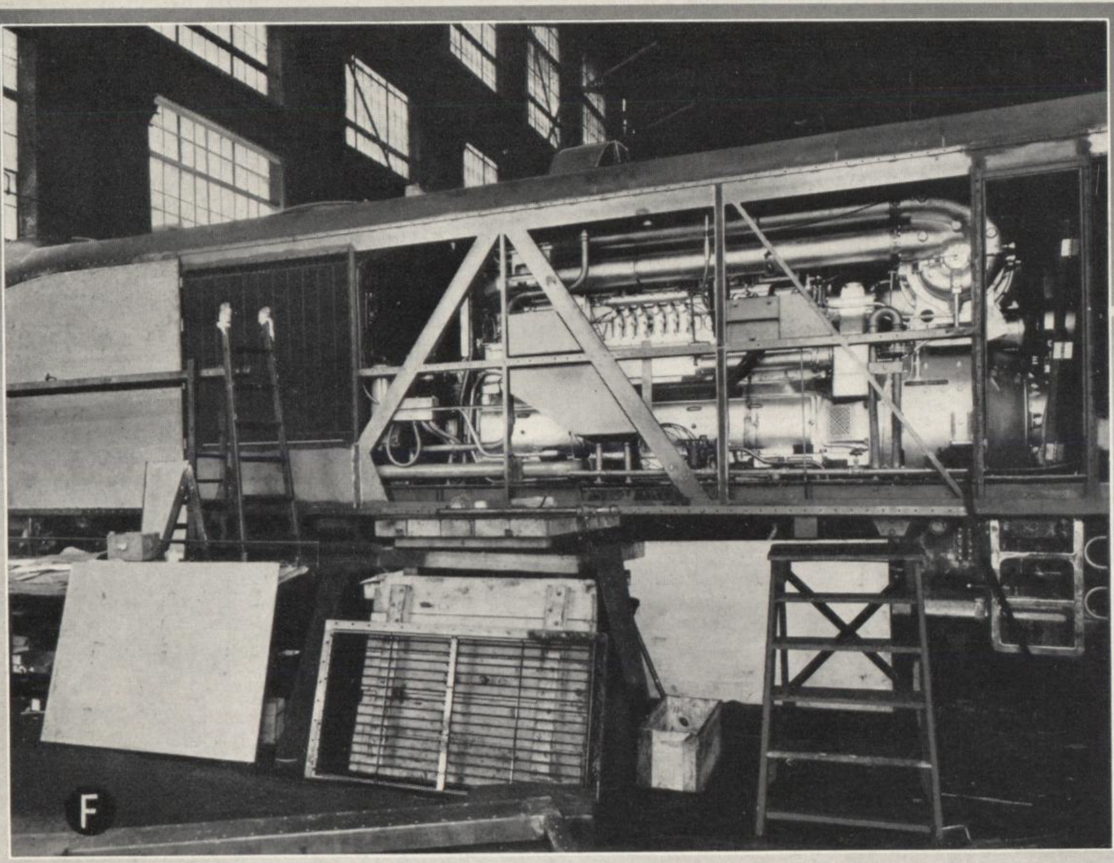
Our Schenectady plant has just finished the delivery to the New York Central of 35 giant modern steam locomotives. Twenty-five are what is known as double-duty locomotives; that is, suitable for fast passenger and freight service. The other ten are for heavy high-speed freight service. Each of these giant locomotives is half a city block long, weighs 380 tons (as much as 235 automobiles) and develops 4400 H.P.





A

DIESEL



Alco-G.E. Diesel Locomotives are built at our Schenectady Plant.

A—4000 H.P. High Speed Diesel Passenger Locomotive.

B—2000 H.P. High Speed Diesel Passenger Locomotive.

C—1000 H.P. Combination Road and Switching Diesel Locomotive.

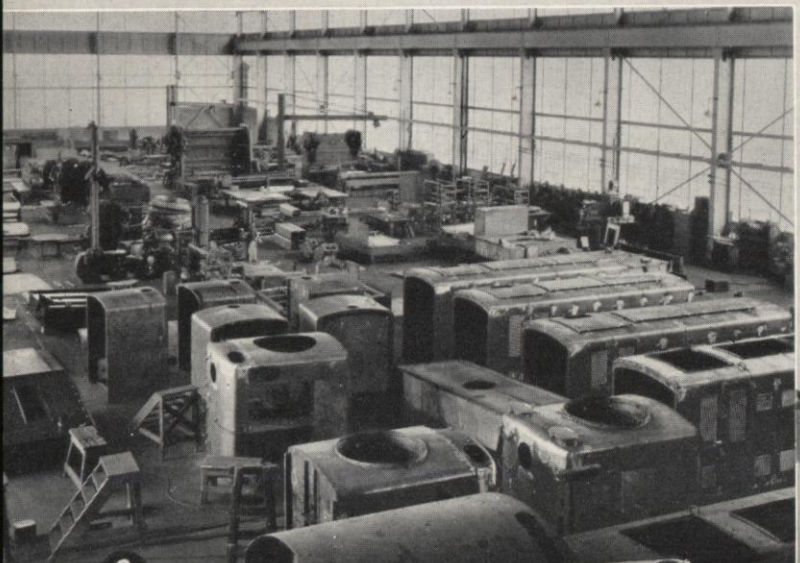
D—1000 H.P. Diesel Switching Locomotive.

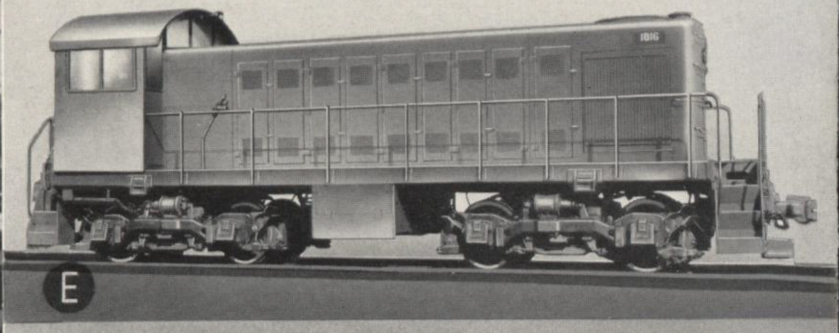
E—660 H.P. Diesel Switching Locomotive.

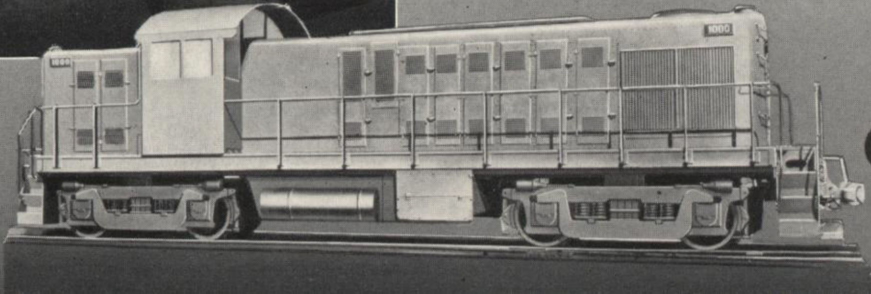
F—Interior of 2000 H.P. Diesel Unit showing one of the Diesel engines in place.

G—Interior of new addition to Diesel Locomotive shop.

H–I—Sections of Diesel Locomotive shop at Schenectady Plant.







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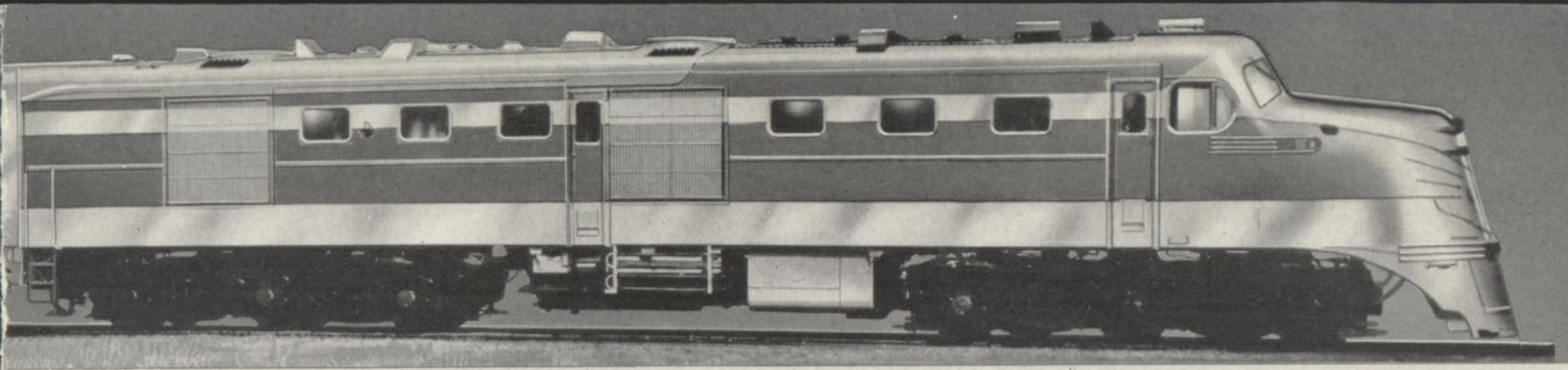
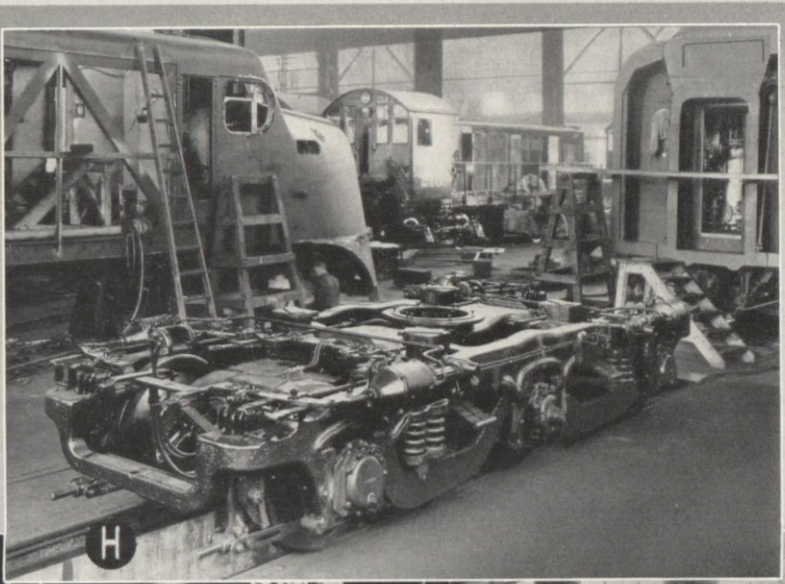


Locomotives

D



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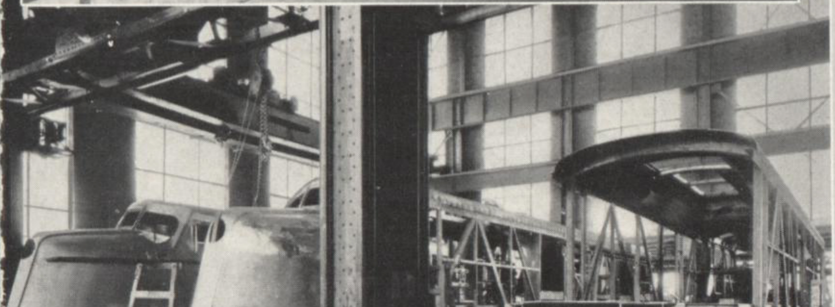


I

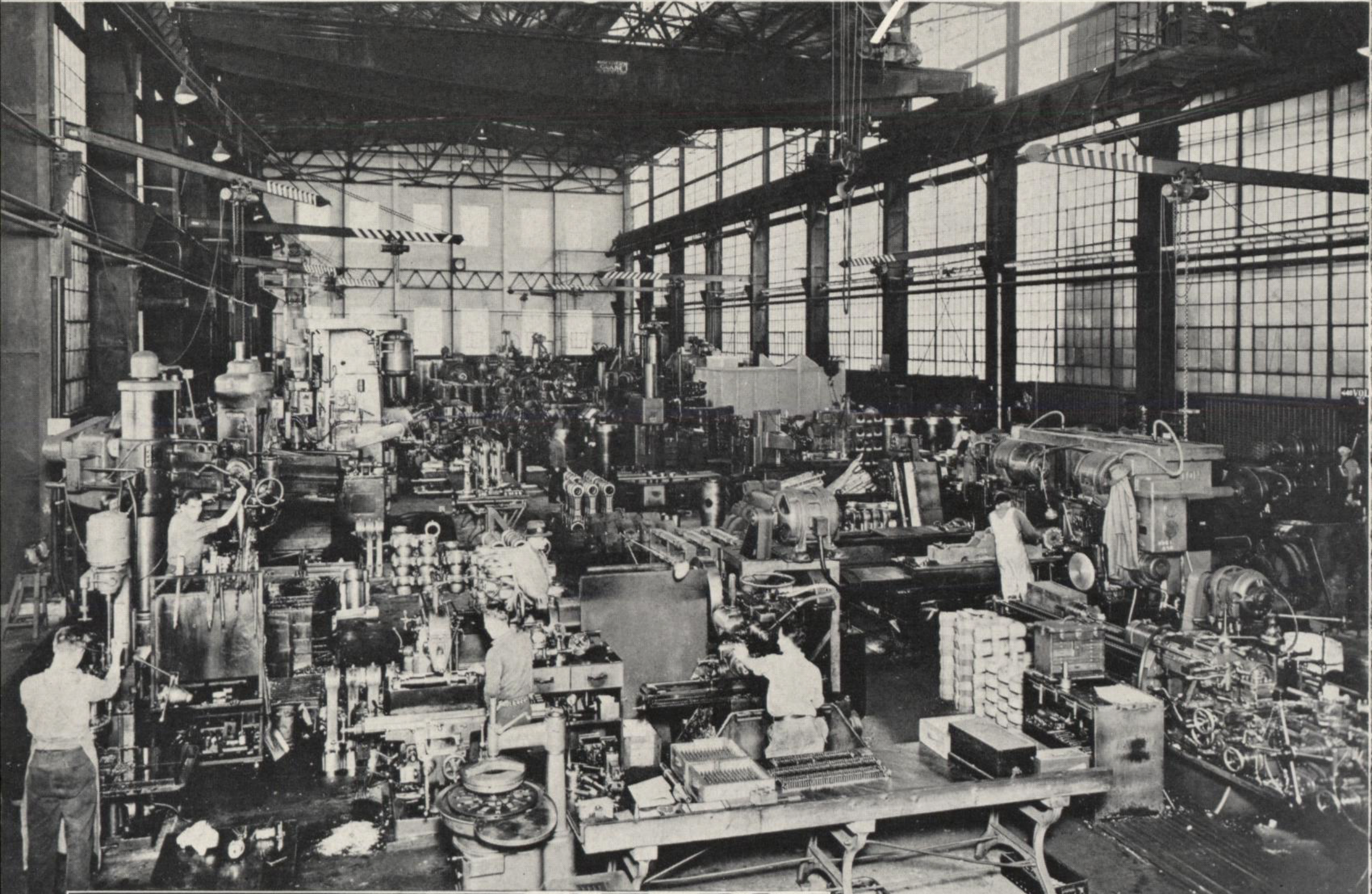
During the past year Alco has extended its line of Diesel locomotives. To our standard 660 and 1000 H.P. Diesel switchers, we have added a 2000 H.P. road locomotive, a 2000 H.P. booster unit, and a 1000 H.P. combination road and switching locomotive. All these locomotives are equipped with G.E. improved electric-drive and are sold as ALCO-G.E. units.

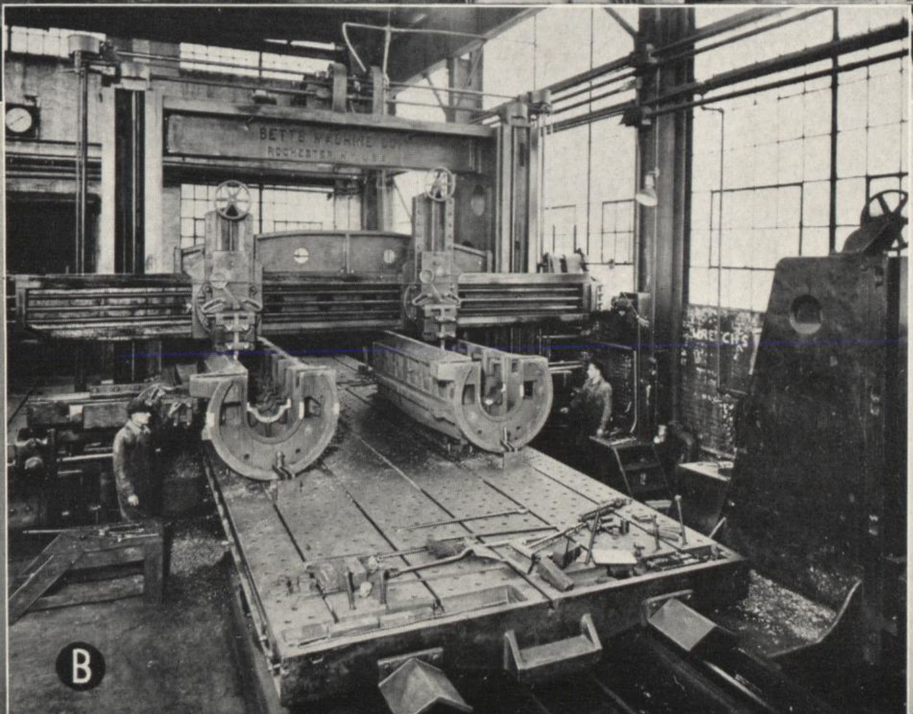
The 2000 H.P. streamlined passenger locomotive is sturdily built and very modern in appearance. It is powered by two 1000 H.P., 4-cycle, 6-cylinder, turbo-charged (Buchi System), Alco Railway Type Diesel engines. 4000 H.P. and 6000 H.P. road locomotives for heavier service consist of a 2000 H.P. head-end unit and one or two 2000 H.P. booster units. The booster units can be added or cut out as needed, making it possible to match closely the head-end power with the load.

The 1000 H.P. combination road and switching locomotive combines in one unit the high speed, sturdy construction, and facilities for train-heating necessary in a general purpose locomotive. This unit is ideally suited for general purpose duty on smaller roads, and on branch lines of larger roads.

B

DIESEL *Engines*





Alco Railway Type and Alco-Sulzer Diesel Engines are built at our Auburn Plant.

A—Interior of new machine shop at Auburn Plant.

B—Large planer finishing two Diesel engine bases.

C—Miller type planer finishing Diesel engine frame.

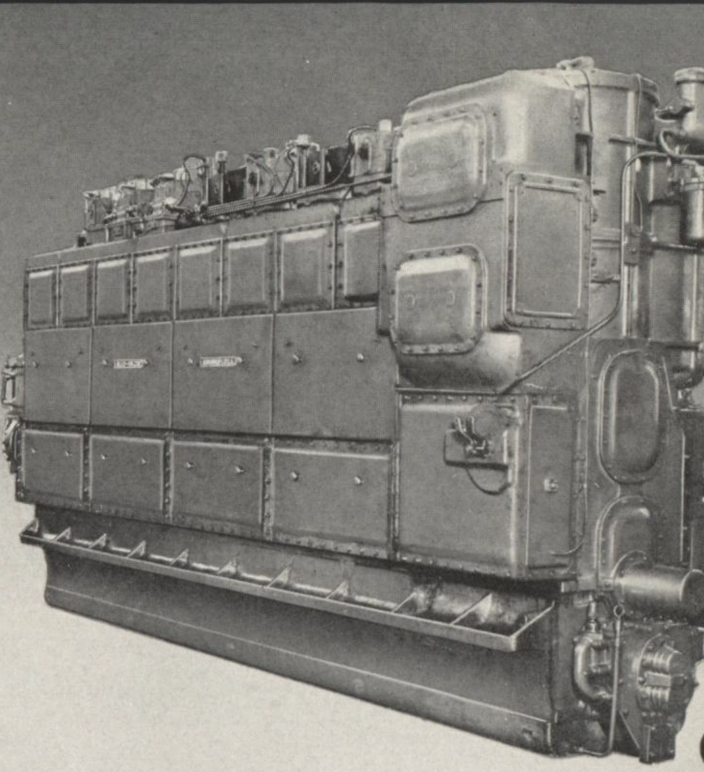
D—1000 H.P. turbo-charged (Buchi System) Diesel engine for high speed Diesel Passenger Locomotive.

E—660 H.P. Diesel engine for Diesel Switching Locomotive.

F—1440 H.P. Alco-Sulzer, two-cycle, marine Diesel engine.

The Alco Railway Type Four-Cycle Diesel engine is a development of the original Diesel engine built for Railway Service in 1930 by the McIntosh & Seymour Corporation, now the Diesel Division of the American Locomotive Company. The design is simple and rugged, compact and suitable for heavy duty, resulting in a high operating efficiency and availability and low maintenance cost. Its eminent success in the Railway field has naturally extended its use into one field after another. This widespread use has enabled the Company to give a degree of concentration to the design, application, performance and manufacture that is unequalled. At present this design is available in a range of ratings between 400 and 1200 H.P., turbo-charged (Buchi System) and non-turbo-charged, Gas or Diesel, depending upon the service.

Our Diesel Division also builds, under license from Sulzer Brothers, Limited, of Switzerland, the Alco-Sulzer, heavy duty, stationary and marine, two-cycle Diesel, of which some outstanding installations have been and are being made. It is available in sizes ranging from 720 to 1800 H.P.



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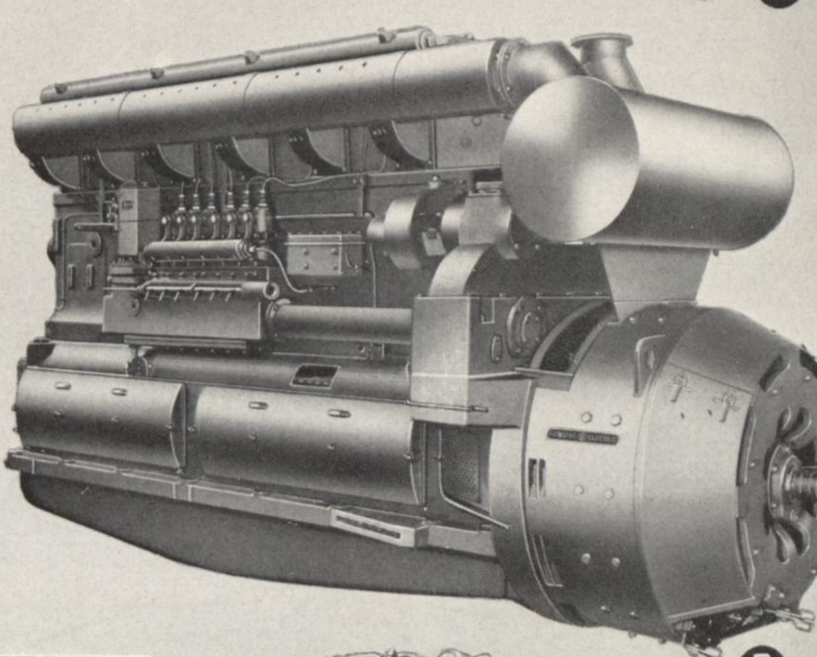

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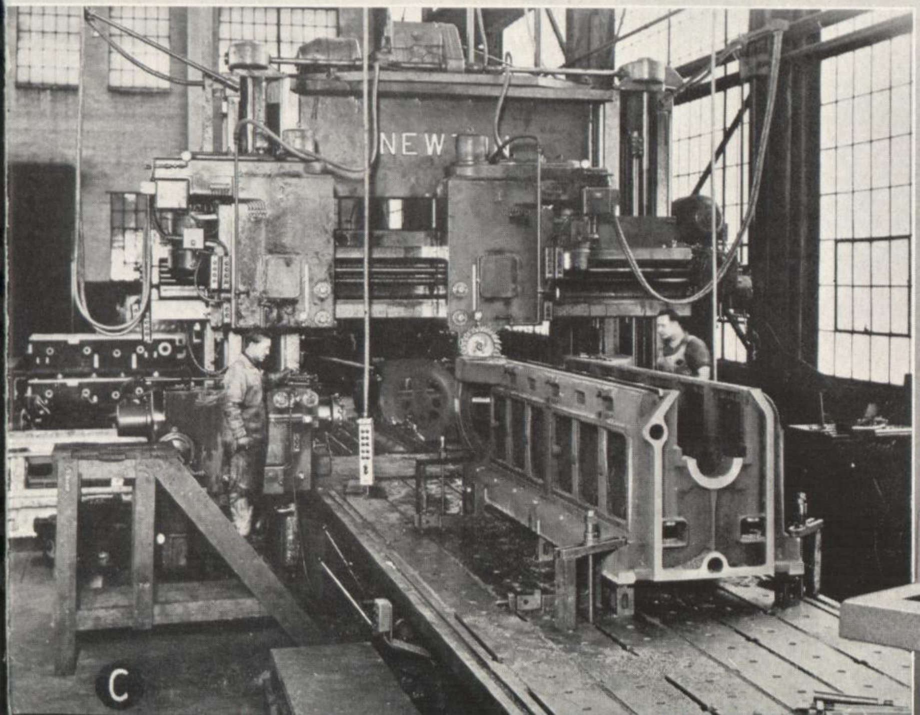

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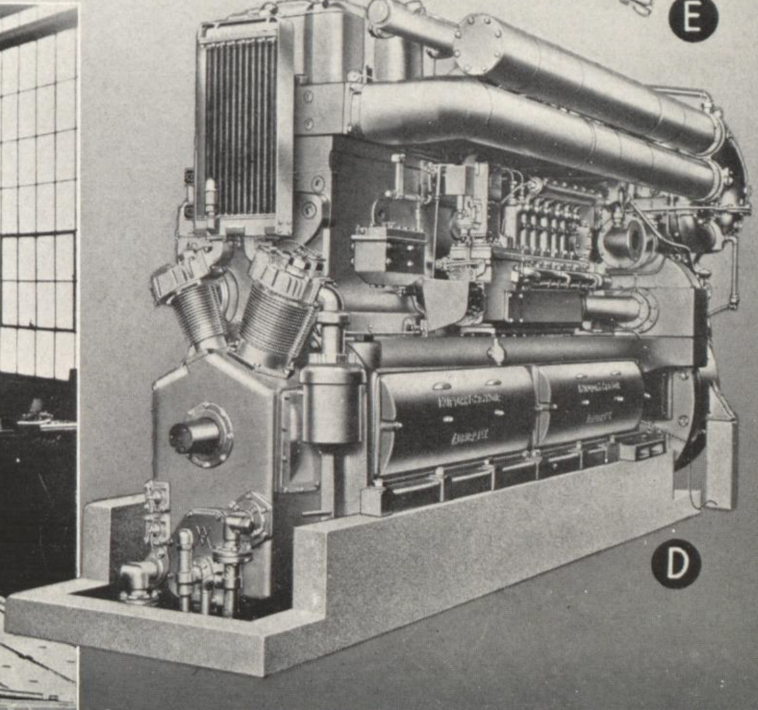

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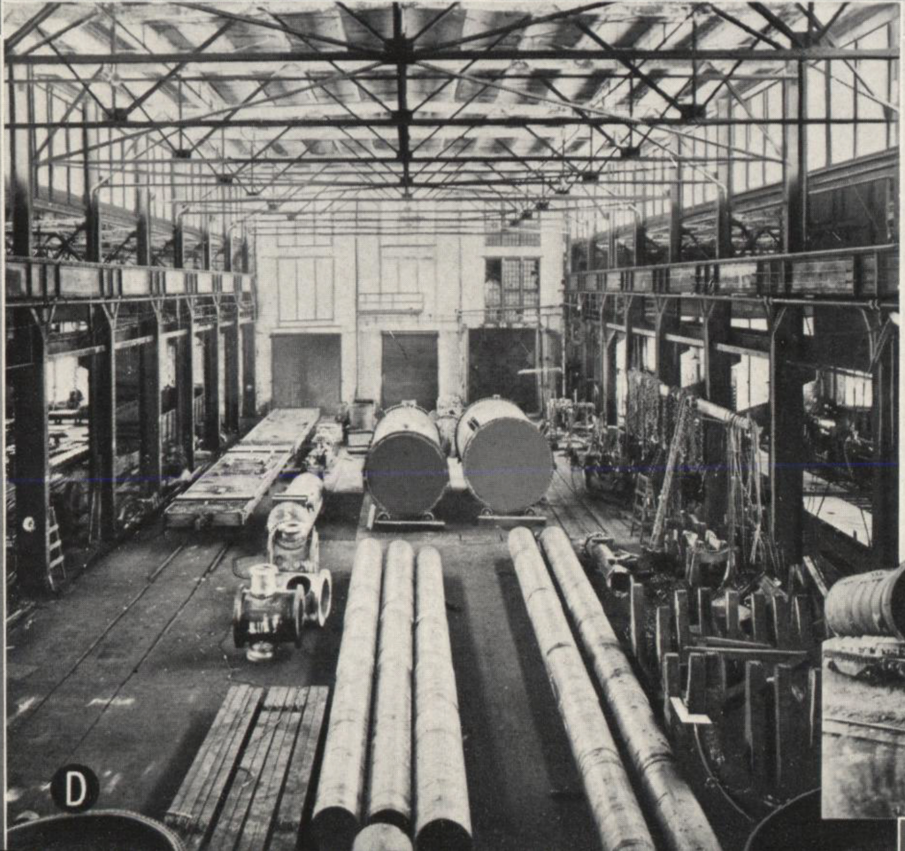


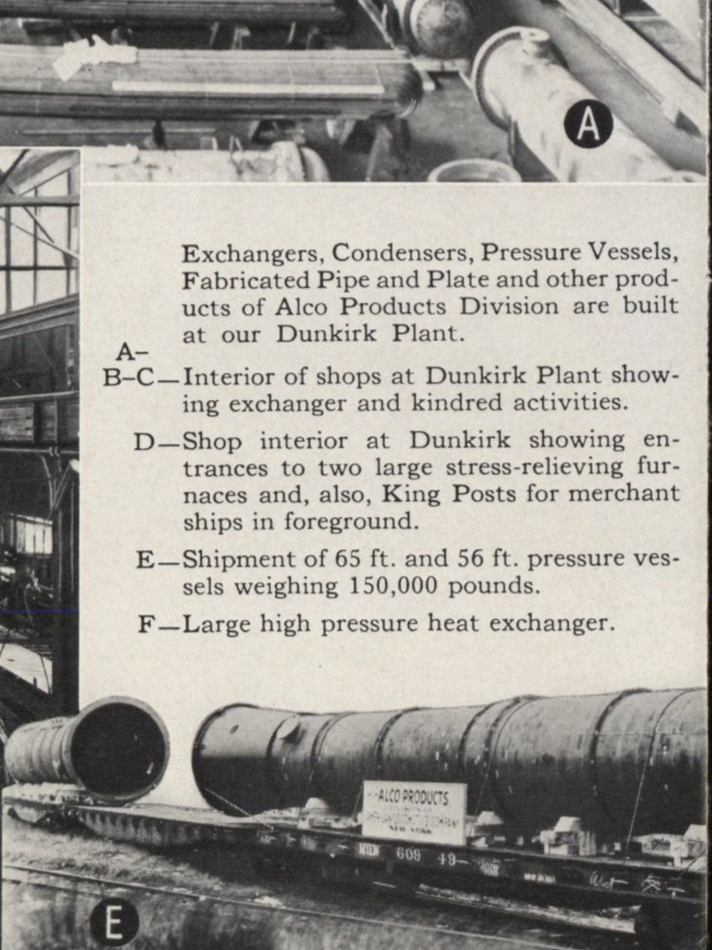
Exchangers, Condensers, Pressure Vessels, Fabricated Pipe and Plate and other products of Alco Products Division are built at our Dunkirk Plant.

A–
B–C—Interior of shops at Dunkirk Plant showing exchanger and kindred activities.

D—Shop interior at Dunkirk showing entrances to two large stress-relieving furnaces and, also, King Posts for merchant ships in foreground.

E—Shipment of 65 ft. and 56 ft. pressure vessels weighing 150,000 pounds.

F—Large high pressure heat exchanger.

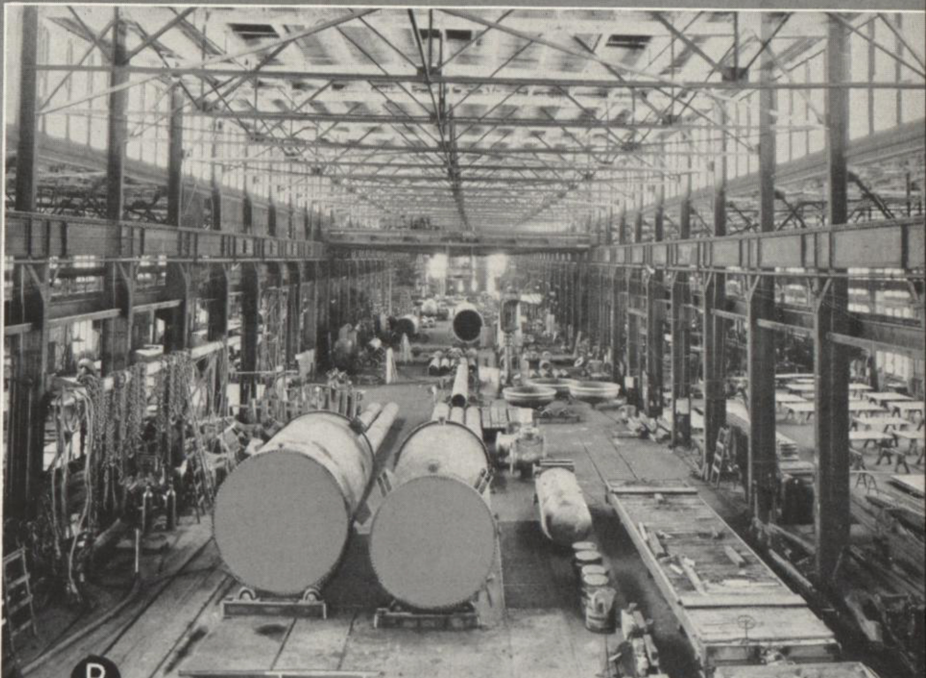


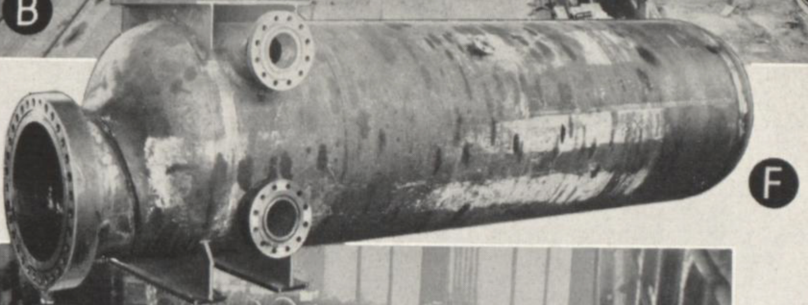
ALCO Products

Alco Products Division expanded its efforts in its established line of products, consisting of designing, manufacturing and sales activities in equipment units of exchangers, condensers, pressure vessels, electric welded pipe, and kindred products. During the year a new major product was added in prefabricated piping. This involves combinations of pipe bends and turns assembled in the shop ready for installation in the field—a service that applies to all industries.

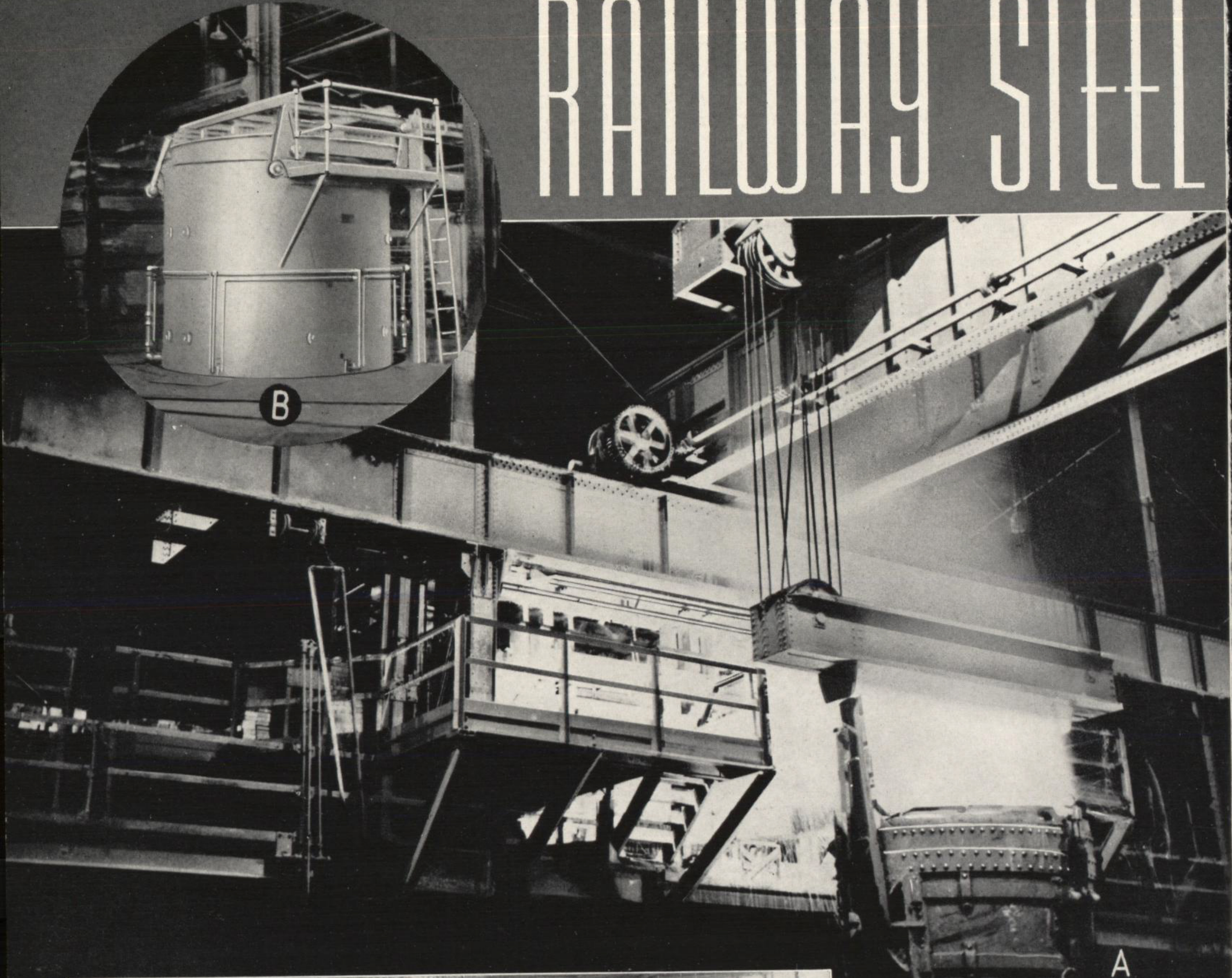
Our Dunkirk manufacturing facilities are such that size of product is practically unlimited. Equipment we build ranges from 18 inches to over a hundred feet in length, and from 4 inches to over twelve feet in diameter—in fact, the only limit is that of railroad right-of-way clearances.

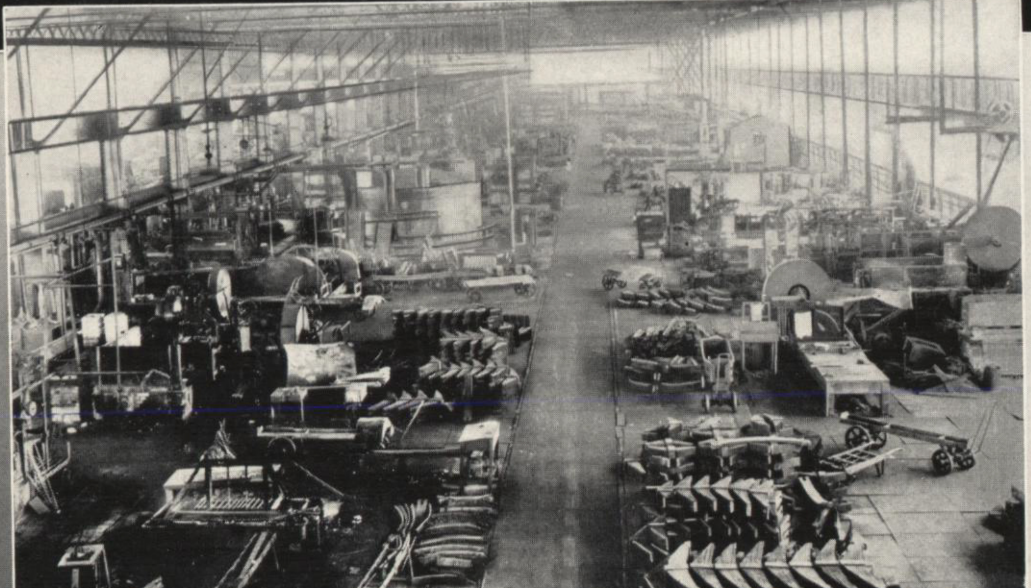
Alco Products now serves the Chemical, Petroleum, Food, Paper, Power, Marine and Municipal fields.





RAILWAY STEEL

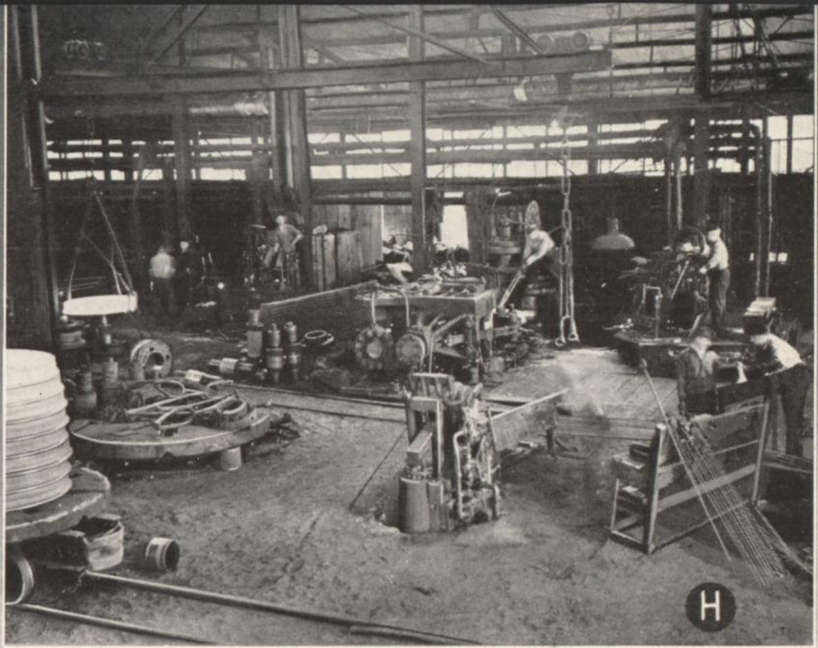


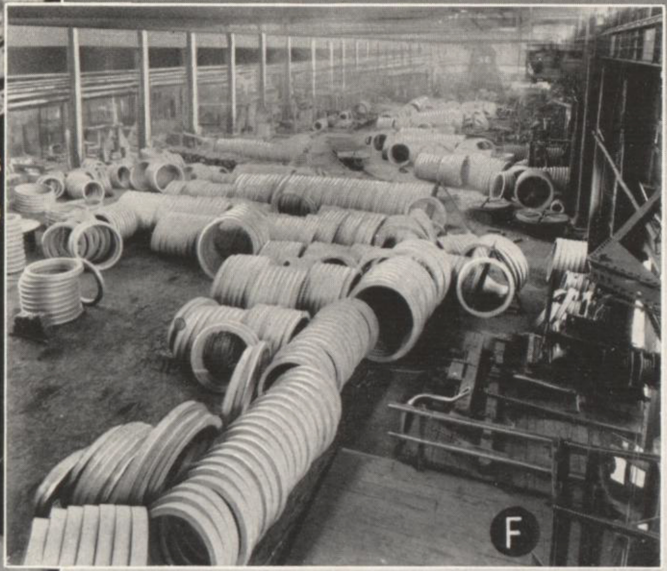


Railway Steel Spring activities are confined to our Latrobe, and Chicago Heights Plants.

A—One of the Open-Hearth furnaces at Latrobe.
B—A forging heat-treating unit.
C—Elliptic spring shop.
D—Coil spring shop.
E–F—Tire boring mill shop.
G–H—Forge shop.

Spring





A great variety of products is manufactured by our Railway Steel-Spring Division. These products embrace springs of all descriptions, locomotive and car-wheel tires, steel-tired wheels, seamless steel circular forgings, journal box lids, spring plates and other pressed steel forms. They range in size from tiny springs, five hundred to a pound, to giant ore crushing roll shells weighing six tons each.

The activity of this Division is chiefly dependent upon the Railroad industry. In addition to supplying products for new equipment, its products are used to a wide extent in replacing parts of the vast railroad equipment constantly wearing out.

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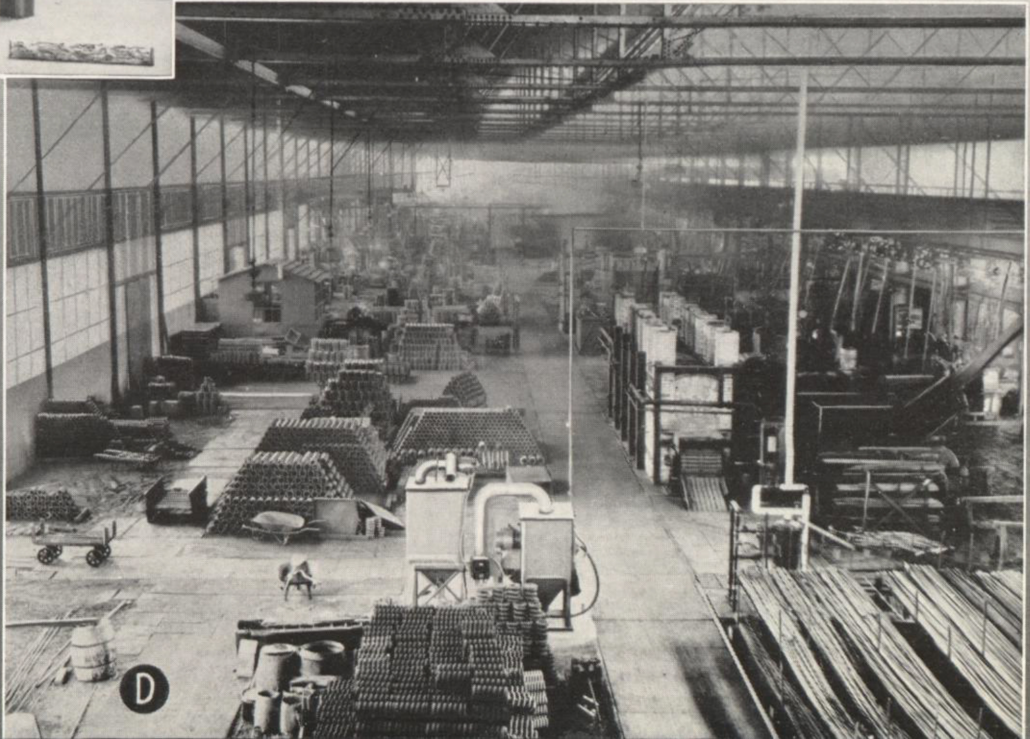

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